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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS EIGHT AND NINE)	Docket No. RM2012-8

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(November 8, 2012)

Comments have been submitted in this docket by four parties – Time, Inc., Pitney Bowes Inc., the Public Representative, and the Association of Magazine Media. The Postal Service hereby submits its reply comments, focusing on the comments of Time and the Public Representative.[1]

Time focuses on Modification 6 of Proposal 9. In Modification 6, the Postal Service proposes to move the cost associated with P.O. Box distribution to "non-modeled." Time objects, preferring that that P.O. Box distribution be explicitly modeled:

> When the Postal Service has determined, based on a much broader set of data than in the limited Time Inc. experiment described above, what the relationship between PO Box incidence and presort level really is, it will be possible to improve on the current model, not by excluding PO Box costs but by distributing them explicitly, according to their incidence at each presort level.[2]

The Postal Service disagrees. The purpose of the models at issue is to calculate the cost avoided by worksharing activities. Because P.O. Box distribution costs are determined solely by the recipient's address, they are invariant, regardless of the level of workshare activities performed. In contrast to worksharing activities, P.O. Box

[1] Pitney Bowes's comments are limited to Proposal 9's Modifications 3 and 5, both of which Pitney Bowes supports. The Association of Magazine Media's comments discuss workshare cost avoidances and pricing issues, but do not opine on either of the two proposals at issue in this docket; they would therefore be better suited to another docket.
[2] Comments of Time Inc. on Proposal Nine, Docket No. RM2012-8 (Oct. 29, 2012), at 3-4.

distribution – the act of sorting mail to the customer's box – is the terminal mail processing activity. Single-piece mail destinating to a P.O. Box incurs these costs. Mail prepared in MADC bundles destinating to a P.O. Box incurs these costs. ADC mail, 3-Digit mail, 5-Digit mail, Carrier Route mail – all of these types of mail, when they destinate to a P.O. Box, incur these costs. For this reason, it is appropriate to exclude these costs from modeled costs and to treat them in the same manner as forwarding and acceptance costs are treated.

The Public Representative addresses Modifications 3, 4, 5, and 7 of Proposal 9. In Modification 3, the Postal Service proposes a methodological change to more accurately reflect the cost due to machine rejects. The Public Representative supports this change but expresses concern regarding the use of AFSM 100 SCF scheme reject rates for all incoming schemes, particularly the Incoming Primary (IP) and Incoming Secondary (IS) schemes. The Public Representative's concern is misplaced. The SCF scheme has been used as a proxy for incoming reject rates for nearly a decade. Initially, this was because very little mail was worked on mechanized equipment in the IS scheme. Later, as more mail was worked on mechanized equipment in the IP scheme, separate IS and IP reject rates were not introduced, because the measured reject rates for these schemes did not differ from the SCF reject rates, and because the introduction of additional parameters would introduce unnecessary complexity to an already complex model. In FY 2011, the accept rate for the AFSM 100 SCF scheme was 97.0 percent, for the IP scheme 96.6 percent, and for the IS scheme 97.3 percent. These accept rates do not differ in a significant manner.

The Public Representative also hypothesizes that bundle breakage may be

affecting the Flats Sequencing System (FSS) reject rates. Due to the way accept and reject rates are calculated, bundle breakage has no such effect. The accept and reject rates come from machine counts of pieces that were fed into the machine (TPF) and the pieces that were successfully sorted (TPH). For the FSS, additional counts are obtained for pieces fed but not successfully sorted because the pieces destinate in a zone not currently processed on the machine. Because these statistics are calculated based on pieces actually worked, bundle breakage has no effect. The cost of bundle breakage is dealt with separately within the bundle cost portion of the model.

In Modification 4 of Proposal 9, the Postal Service makes changes to the modeled allied activities to better reflect the current allied flows within mail processing facilities. With regard to this modification, the Public Representative requests an explanation of the causes of increased allied costs for mechanized mail. In the initial petition, the Postal Service explained:

> The predecessor to the current Periodicals flats model, LR-I-332 (Docket No. R2000-1), was developed when flats incurred a much simpler flow. In 2000, the AFSM 100 had not been deployed and most IS processing was done at the delivery unit manually. Each facility typically processed the mail once and there was very little intra-facility flow of mail from scheme to scheme. The modeled flows mirrored this and simple allied flows with intra-facility flows largely ignored. The introduction of the AFSM 100 and FSS has changed this. Today most IS processing is conducted on mechanized equipment meaning that mail flowing from IP operations will typically incur some intra-facility allied activity. Modification 4 makes changes to the modeled allied flows to reflect operational realities.[3]

In light of the operational changes described above, it makes sense to update the model to reflect that there is now more intra-facility allied activity due to the increased mechanized IS processing than there had been in the past.

[3] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Eight and Nine), Docket No. RM2012-8 (Sept. 28, 2012) ("Petition"), at 9.

In Modification 5, IOCS costs are used to develop class-specific parameters for the incidence of FSS processing. The Public Representative is concerned with the use of IOCS costs, rather than measured volumes of pieces worked in FSS operations. The Postal Service is sympathetic to these concerns; piece counts by class would be preferable. Unfortunately, as with every other piece of mechanized equipment, it is not currently possible to obtain class characteristics of pieces worked on the FSS without incurring exorbitant expense. In the future, IMB technology may assist in this endeavor, but, in the current environment, IMB utilization is not sufficient to provide the necessary information.

The use of IOCS costs here is appropriate as pieces are machine fed, and there is no perceptible difference in the way pieces of different classes are worked. The purpose of FSS operations is to provide carriers with all classes of flats in the same trays in delivery point sequence. To accomplish this, it is necessary to work all classes simultaneously in the same run. All pieces of mail worked on the FSS meet machinability standards, and all of them are machine fed. Thus, there is no productivity difference between classes. As a result, operation cost is an accurate and appropriate measure of relative volume by class.

In Modification 7, Postal Service transportation routing information is used in conjunction with eVS Mail.dat data to update crossdock estimates. The Postal Service continuously maintains data on transportation routes to monitor mail transportation logistics. These data have over 2.6 million records on transportation route and destination ZIP pairs. Many origin/destination pairs have multiple records as multiple transportation routes serve a single origin/destination pair. As described in the petition,

this information is used to develop a transportation mapping of origin/destination pairs to counts of crossdocks incurred in transit.

The Postal Service then incorporates the transportation mapping into the existing methodology used to produce estimates of mail preparation characteristics to produce estimates of crossdocks incurred by container level and entry facility type. The mail characteristics study (MCS) methodology has been in use since 2005 to produce the preparation characteristics used to calibrate flats models to CRA costs, most recently in Docket No. ACR2011 USPS-FY11-14. The methodology uses PostalOne! mailing statement data to stratify Periodicals publications into 30 strata based on density, dropship characteristics and pallet usage. Mail.dat files from the eVS system are used to develop estimates of preparation characteristics by stratum. This methodology is employed to account for publications that do not provide Mail.dat files as part of acceptance. In quarter 4 of FY 2012, a total of 3,412 publications supplied Mail.dat files out of 19,419 active publications.

The Public Representative presents a table (Table 1) on page 9 of his comments and states:

> The table shows that the entry at the OBMC has resulted in the largest increase in number of cross-docked sacks and the greatest decrease in cross-docked pallets. This seems to be the sort of result one would expect from an increase in the processing of FSS volume.[4]

As constructed, the Public Representative's Table 1 measures the change in measured average crossdocks, not the aggregate number of sacks or pallets crossdocked. However, the Public Representative is correct in noting that these cells experience the largest change. Origin NDC containers are a rarity in Periodicals. In FY 2011, 0.34

[4] Initial Comments of the Public Representative, Docket No. RM2012-8 (Oct. 29, 2012), at

percent of non-MADC sacks and 0.14 percent of pallets were entered at the ONDC. With so few containers entered at these facilities, crossdock estimates based on observed containers entered at ONDCs can vary. For this reason, estimates are smoothed. As stated in the initial petition:

> Smoothed estimates are necessary as there are many sparsely populated cells; this is especially true with origin or destination NDC entry. Containers currently entered in these sparsely populated cells for which Mail.dat information is available may not be representative of the universe and more importantly are not representative of the containers that could migrate to these cells. As an example, a large fraction of ONDC entered 5-Digit containers are entered in Phoenix and destinate in Salt Lake City. These two facilities have direct transportation links so these containers will pass through two facilities prior to arriving at the destination delivery unit. Prices based on unsmoothed estimates can distort incentives as containers that may migrate to ONDC entry are likely not to have similar direct transportation.[5]

All calculations involved in the smoothing process are presented in "Cross Stats.xls" in the initial filing.

Having addressed the concerns raised by Time and the Public Representative, the Postal Service requests that the Commission approve Proposals Eight and Nine.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -5402
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[5] Petition, at 14-15.